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## **Russian Federation**

### **Grain and Feed**

### **May Update**

**2003**

Approved by:

**Jeffrey Hesse**

**U.S. Embassy**

Prepared by:

Yelena Vassilieva and Dorothy Adams

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#### **Report Highlights:**

**Based on higher-than-expected export trade data for January/February and larger estimated shipments in March/April, Post has raised MY2002 estimate for wheat exports to 13 million metric tons. Post has been investigating this unusual level of export activity for several months and recently traveled with FAS/W analysts to major port areas in Russia. Findings from that trip are included in this report.**

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Includes PSD changes: Yes

Includes Trade Matrix: No

Unscheduled Report

Moscow [RS1], RS

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## **Executive Summary**

Post's forecast for the MY2003 wheat crop (first published last month in the Grain and Feed Annual) remains unchanged. However, Post has raised the MY2002 wheat export estimate by two million metric tons (mmt) to reflect higher-than-expected export levels over the past several months (see trade data in this report). At the same time, Post has lowered the MY2003 wheat export forecast to 4 mmt in light of larger MY2002 exports and the expected smaller MY2003 wheat crop. Post also has lowered wheat feed consumption figures for both the current and out year to reflect current thinking on livestock numbers.

In April, AgAtt and AgSpecialist traveled with FAS/W analysts from GFD and PECAD to Rostov and Krasnodor Oblasts, two of the largest grain producing areas, to evaluate the new crop and examine port facilities. Findings from that trip are included in this report.

## **Wheat**

Post raises the MY2002 export estimate to 13 mmt. Exports in the period between July 2002 and February 2002 reached 10.3 mmt and Post believes that March and April's exports were also large. During May and June, Post expects exports to taper off as supplies dwindle in anticipation of the new crop.

Post has lowered the MY2003 export forecast to 4 mmt as prices are rising and will remain at a high level thought the year making exports less competitive on world markets. In addition, the tariff discount on rail shipments over 200 kilometers has been removed making the shipment of grain from the interior to ports (especially foreign ports) less attractive.

Post has lowered feed consumption for both MY 2002 and MY 2003 to be more in line the thoughts of experts on expected animal production numbers.

**Table 1: PSD, Wheat, 1,000 Metric Tons, 1,000 Hectares**

PSD Table						
Country	Russian Federation					
Commodity	Wheat				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	23800	23800	25700	25700	0	23500
Beginning Stocks	1400	1400	6479	6400	5729	5110
Production	46900	46900	50550	50560	0	41000
TOTAL Mkt. Yr. Imports	629	496	300	250	0	700
Jul-Jun Imports	629	496	300	250	0	700
Jul-Jun Import U.S.	48	0	0	0	0	0
TOTAL SUPPLY	48929	48796	57329	57210	5729	46810
TOTAL Mkt. Yr. Exports	4372	4408	11000	13000	0	4000
Jul-Jun Exports	4372	4408	11000	13000	0	4000
Feed Dom. Consumption	14000	14000	17500	16000	0	16500
TOTAL Dom. Consumption	38078	37988	40600	39100	0	40000
Ending Stocks	6479	6400	5729	5110	0	2810
TOTAL DISTRIBUTION	48929	48796	57329	57210	0	46810

**Table 2: Russian Wheat Exports by Country**

	IIIQ 02	IVQ 02	Jan. 03	Feb. 03	Mar. 03	IIQ 03	MY 02/03
Afganistan	0.3	4.7					5.0
Albania	52.9	41.1	19.9	29.0			142.9
Algeria	254.8	394.7	238.8	57.0			945.2
Armenia	9.8	5.4					15.1
Austria	1.1	94.2					95.4
Azerbaijan	47.3	68.2	26.9	19.7			162.1
Belgium		56.0					56.0
Brazil	5.0						5.0
Canada		3.4					3.4
Cyprus	17.1	21.5					38.7
Denmark	3.0	95.5	0.0	2.2			100.7
Egypt	454.8	698.4	97.3	56.6			1,307.1
Estonia	27.3	77.9	18.2	11.6			134.9

Finland	1.6	38.0				39.5
France		50.8				50.8
Georgia	88.2	81.7	51.5	41.5		262.8
Germany	9.5	44.4				53.9
Gibraltar		0.6				0.6
Greece	242.9	341.2	26.8	72.8		683.7
Iran	38.0	54.3				92.3
Iraq		57.4		42.5		99.9
Ireland	9.8					9.8
Israel	152.1	110.2	0.0	38.4		300.6
Italy	603.1	779.8	94.2	107.8		1,584.8
Jordan			85.5	31.5		117.0
Kazakhstan	0.0	1.5				1.5
Korea Rep.	51.5	68.3	15.4	22.2		157.4
Latvia	8.9	57.4				66.3
Lebanon	50.7	75.0	18.7	45.4		189.8
Libyan Arab Jamahiriya		1.7				1.7
Lithuania		32.6				32.6
Malta		6.4				6.4
Moldova		0.3				0.3
Mongolia	12.5	20.0				32.5
Morocco	179.0	249.0	101.4	34.5		563.8
Netherlands	24.0	32.4				56.4
Nigeria	40.0					40.0
Peru		17.7				17.7
Poland		5.3				5.3
Portugal		26.2				26.2
Saudi Arabia	18.6	57.0	18.2	12.8		106.6
Spain	97.8	423.3	42.8	44.6		608.5
Sweden		26.6				26.6
Switzerland	1.2	7.7				8.9
Syria	96.1	173.9	196.2	68.9		535.0
Tajikistan	5.2	2.2				7.5
Tunisia	10.0	38.0	40.8	78.9		167.7
Turkey	29.9	88.8	68.2	78.4		265.3
UK	0.8	17.9				18.7
Ukraine	66.0	127.2	27.4	27.0		247.6
US		1.8				1.8
Uzbekistan		1.2				1.2
Vietnam		3.8				3.8
Virgin Islands (UK)		3.0				3.0

Other	27.1	(0.0)	353.2	395.4	0.0	0.0	775.7
Total	2,738.0	4,685.3	1,541.3	1,318.6			10,283.2

Source: State Customs Committee

Note: Flour is not included

## Trade

### Port Capacity Update

As noted, Post has raised its estimate for MY 2002/03 wheat exports to 13 mmt based on higher-than-expected shipments through April. However, questions remain as to exactly how this unusually large amount of grain was exported this year. Post has been looking into this question over the past several months. From the many traders, analysts, and government officials occupied in examining this question, estimates of how much of this grain went out of Russian ports vary greatly. Estimates range anywhere from all of it to only half. However, three things appear certain: 1) like most issues of this nature, the truth lies somewhere in the middle; 2) the dust surrounding this year's exports has not settled, and it will be several more months before the exact figures are known; 3) the stars aligned just right this year to allow this level of exports to occur, and it is highly unlikely that exports will remain at this level.

Post reported in the Grain and Feed Annual that Russian port capacity is between 6.0 and 6.5 mmt. Post believes this to be an accurate assessment of traditional port facilities, i.e. berths, elevators, and other port infrastructure. While there are ongoing improvements to these facilities, Post thinks Russian port capacity will continue to be limited by the many of the natural barriers mentioned in the annual report, e.g. the depth of channels and rail line difficulties and also by the fact that Russia is still dealing with the legacy of the Soviet Union in many ways including transportation infrastructure. Traders are accustomed to using the ports in the Baltics and in the Ukraine, which were the traditional export ports during the Soviet times. Russia's ports are set up for large scale imports, and converting them to handle exports, while technically possible, is expensive. Additionally some production areas in Russia are closer to the Baltic and Ukrainian ports than the ports in the Southern regions of Russia.

The most interesting aspect of this year's large export trade was "non-traditional" companies exporting in "non-traditional" ways. For example, the large gap between domestic prices and world prices made grain trading a quite attractive way to make a quick profit. This attracted small companies that do not usually engage in grain trading in a more conventional year. These companies used some creative ways to export such as loading directly from the train cars onto barges or ships, which can damage the cars, is more expensive, and reduces grain quality. In some cases, traders shoveled the grain directly onto a vessel by the side of the Don river, which is also more expensive than more traditional ways of exporting. Due to the recent low prices, traders were able to export in this manner and still make a profit. However, rising prices will likely eliminate this unusual marketing opportunity and, thus, effectively remove such companies from the market.

We have heard much about the "resourcefulness" of these "non-traditional" traders. In one instance, we were even told that some of these "non-traditional" methods defied description. However, we believe that much of this has been overstated and is the stuff of urban legend. Large traditional traders commented that the amount of grain being exported in this way was not a significant share of total output and suggested these non-traditional companies won't stay in the

market. We have no concrete estimate of what share of total exports these "non-traditional" exporters represents, but believe it to be in the neighborhood of 500,000 tons.

## **Rail**

Railway inefficiencies continue to be a serious impediment for Russian exports. Traders comment that the shortage of railcars is increasing, as no new cars are being bought and repairs to existing cars aren't being made. Additionally, traders are forbidden from participating in the acquisition of new cars or modernizing of the rail network, creating an artificially bottleneck. In Russia, the cost of railfreight is one of the main components in the cost of grain. According to traders, the price of freight is more than seven times higher than the price of feed wheat.

## **Other Issues**

### **Rice Import Duty**

On April 19, 2003 the Commission on Protective Measures for External Trade and Customs Policy approved the proposal of the Russian Ministry of Agriculture and rice producers to adopt an import duty equal to either 10 percent of the declared customs price or 30 Euros per mt, whichever is higher. The 25 percent discount on the duty will remain in place for developing countries. The measure will now go before Prime Minister Kasyanov. If he signs it, the measure will become effective one month after it's official publication date.

### **Access to Credit**

Access to credit continues to remain a major problem for producers. The GOR is subsidizing two-thirds of the interest on commercial loans. However, these loans are not available to the vast majority of producers, who are often already in debt and tend not to qualify. Land can't be used as collateral because banks are inexperienced using land, and there is no developed system for valuing it. Also, grain can't be used as payment to secure a loan because the development of a viable warehouse receipts program is still in it's infancy. Further, the law which would govern it is still under review in the Duma. Therefore, farmers, in large part, are forced to sell their crop right after harvest for several reasons. First, there is often a shortage of close, affordable, or useable storage. Second, farmers are in need of capital for operating expenses and to pay off any debts they may have incurred. Third, during harvest the rural areas are flush with middlemen with lots of cash on hand, which is hard to resist for the cash strapped farmer. In an effort to ease this situation, the GOR recently passed a law on restructuring agricultural debt. The new law is expected to decrease the number of farmers in debt and improve their access to credit. For some enterprises, this will work. For the others, experts expect they will remain encumbered by debt and will need further relief.